



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

Date: 1/9/2004

GAIN Report Number: KS4003

Korea, Republic of

Organic Products

Organic Market Update

2004

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Report Highlights:

Koreans, increasingly concerned for their families' health and food safety, are turning to organic and environmentally-friendly agricultural products. Although the Korean market is still quite small, U.S. exporters have an opportunity to educate Korean buyers about U.S. organic processed products and to develop relationships, which can grow into long-term sales.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Seoul ATO [KS2]
[KS]

SECTION I. SUMMARY

The nascent Korean market for organic products is small, but local industry sources project a growth rate of 30 percent per year. Domestically produced organic products consist mainly of fresh vegetables, some fruits, and rice. While imported organic ingredients are used to manufacture some processed organic products, such as tofu and baby food; most processed organic products are imported. Currently, baby food and other organic products aimed at infants and small children are considered to have the best growth potential.

The Korean government has developed an organic certification and labeling program that has had an ancillary positive effect of increasing consumer awareness about the heavy use of agricultural chemicals in Korea. At present, no U.S. organic farms have applied for approval from the Korean government to export organic fresh produce or grains to Korea. Organic ingredients and processed organic products need only an original transaction certificate from a USDA-accredited certifying organization to be accepted as "organic" by the Korean government.

Table 1. Advantages vs. Challenges

Advantages	Challenges
Local production of processed organic products is negligible.	Korean importers and retailers have very little knowledge about imported processed organic products.
Consumers are increasingly aware of organic products and the demand is growing.	U.S. exporters of organic products know little about the Korean market and do not view it as an opportunity.
Tariffs for processed organic products are relatively low.	U.S. farms of fresh organic produce and grains needs to be approved by the Korean government before exporting.
Consumers trust the USDA label.	Consumers are more comfortable with Korean labels.
Korea imports over 70 percent of its total food needs.	Organic products are priced 10-30 percent higher than their conventional counterparts.

SECTION II. REGULATIONS AND POLICY

The regulations for fresh organic produce and grains are implemented for the Korean government by the Ministry of Agriculture and Forestry (MAF) and the regulations for processed organic products are implemented by the Korean Food and Drug Administration (KFDA). This is true for both imports and domestically grown organic products.

A. Certification Requirements for Imported Processed Organic Products

An original transaction certificate issued by a U.S. government accredited certifying organization must accompany each shipment. Although the information on the transaction certificate is currently not standardized, certificates with the following data have been accepted by KFDA.

<p style="text-align: center;">TRANSACTION CERTIFICATE</p> <p style="text-align: center;">This is to certify that,</p> <p>Name of Manufacturer</p> <p style="text-align: center;">has shipped the following organic products to:</p> <p>Name of Importer</p> <p style="text-align: center;">PO Number Quantity of Shipment (Name of Product)</p> <p style="text-align: center;">Lot Number</p> <p style="text-align: center;">Shipping Date Shipment Method</p> <p style="text-align: center;">Transaction Certificate Number Transaction Certificate Date</p>

B. Labeling Requirements for Processed Organic Foods

Labeling requirements for processed organic agricultural products are determined by KFDA. The following labels may be used depending on the percentage of organic ingredient contained in the product.

- If the finished food product contains only organic food or food additives, it can be labeled as a "100 percent organic agricultural product."
- If 95 percent or more of the raw materials are organic agricultural products, the term "Organic" can be used as part of the product name on the primary display panel. The seal and logo of the certifying institution must also be on the label. The quantities of organic agricultural products must be stated in percentage in the section for labeling raw materials.
- If the raw materials contain between 70 percent and 95 percent organic agricultural products, the term "Organic" can be used on any of the sides other than the primary display panel of the package. The quantity of organic agricultural products must be labeled in percentage in the section for labeling raw materials.
- If a product, with less than 70 percent organic agricultural products, contains organic agricultural products as a certain ingredient, the label "Organic" can be used for the relevant items in the section for labeling raw ingredients. The quantity of organic agricultural products must be labeled in percentage in parenthesis next to the name of the raw materials in question.

Additionally, the term, "Natural" can be used for products that do not contain artificial (combined) flavoring agents, synthetic colors, synthetic preservatives or other artificial or post-harvest-added synthetic components and has not gone through additional processes other than a process of eliminating non-dietary elements. The term "100 percent" can only be used when no materials other than the raw materials in question are added.

Korea maintains a list of usable food additives and some are only allowed in certain food products. It is best to check with the U.S. Agricultural Trade Office (ATO) if you have a question about a particular food additive. However, we recommend sending a sample of your product and a list of ingredients to the Food Standard Division of KFDA (Tel: (001 82-2 380-1665/8, Fax: (001 82-2 382-4892) to verify compliance with Korean requirements.



C. Labeling Requirements for Fresh Agricultural Produce and Grains

The Labeling requirements for agricultural products are set by the National Agricultural Products Quality Management Service (NAQS). NAQS was designated as the official certification body for sustainable agricultural products by MAF.

Under the Environmentally-Friendly Agriculture Promotion Act (EAPA), there are four emblems that are used for fresh agricultural produce and grains depending on the amount of chemicals and fertilizer used and the number of years the product has been cultivated without chemicals or fertilizers:

- Fresh agricultural produce and grains cultivated with no agricultural chemicals and no chemical fertilizer for three years are labeled with a dark green emblem as "Organic Products."
- Fresh agricultural produce and grains cultivated with no agricultural chemicals and no chemical fertilizer for one year are considered to be in a transitional period and are labeled (like the example) with a light green emblem as "Transitional Organic Agricultural Products."
- Fresh agricultural produce and grains cultivated with no agricultural chemicals, but with chemical fertilizer used within the amount allowed by law, are labeled with a blue emblem as "No Agricultural Chemicals."
- Fresh agricultural produce and grains cultivated with half the amount or less of agricultural chemicals allowable by law are labeled with an orange emblem as "Low Agricultural Chemicals."

The above labeling laws have greatly increased consumer awareness about the amount of chemicals used in local agricultural production. In addition, the Korean government encourages farmers to grow organic products for environmental reasons and participating farmers receive a premium for their products. The government also provides certain subsidies to advertise organic agricultural products and for packing organic products.

SECTION III. CONSUMPTION AND MARKET SECTORS

A. Consumption

Generally women, between the ages of 30 to 50, do the family food shopping. Culturally, Korean mothers are well known for the great lengths they will go in order to protect their children. Many people are concerned with the high rate of cancer and skin diseases thought to have come from the excessive use of agricultural chemicals in Korea. As a result, this group purchases organic products for their children, mostly baby food or infant formula, even when they do not for themselves. Although education and income levels play a role, the significance is not clear. According to the largest Korean retailers of

processed organic products, this segment has shown the most growth and is anticipated to continue to do so in the future.

In addition, Koreans' interest in health is extremely high. The last consumer survey conducted in 2003, indicated that 74 percent of Korean consumers were purchasing organic products because they were concerned about their families health and food safety; nine percent were concerned about the environment; and only seven percent thought that organic foods tasted better or the quality was better.

As a whole, Koreans are very aware of the term "organic" as the Environmentally-Friendly emblems are easy to understand and the Korean government has done a lot of advertising.

B. Market Sectors

RETAIL FOODS

Entry Strategy

There are three major importers/distributors of organic products currently supplying the Korean market. With a few exceptions, they are working with three different U.S. consolidators. One retailer has developed several exclusivity arrangements and is importing those products directly and distributing them to other outlets. New-to-market exporters can create product awareness by presenting their products to one of the three importers/distributors or they can attempt to develop a relationship with an importer/distributor who is currently not importing organic products. To reach the latter audience, exhibiting the product at a food show or at an organic event is an effective way to promote branded organic products (see Section V).

Market Summary

The size of the retail market is estimated to be \$250 million for Environmentally-Friendly agricultural products, of which organic products are a subset. According to trade sources, the growth rate is approximately 30 percent per year. Department stores in Korea rent space on their grocery floor for concessions, which are managed by importers/distributors. These "organic corners," as they are often called, are not actually in a corner, but often in a prime location in the store. Several major department stores have organic corners. For example, Hyundai Department Store has two organic corners, one called "Gutenmorgen," which features mostly organic foods from the European Union, and located right next to it is a competitor's organic corner, Yuginongsan, with products from the United States. Lotte Department Store also has an organic food products corner called "Purum," which handles a variety of organic food products from locally produced staple grains to imported confectionaries, beverages, infant food, pasta and jams.

Table 2. Retail Company Profiles

Locations	No. of Outlets	Importer	Purchasing Agent Type
Department Stores:			
Hyundai	9	Yuginongsan	Consolidator (US)
Hyundai	6	GutenMorgan/Samyangsa	Consolidator (EU)
Shinsegae	2	Yuginongsan	Consolidator (US)
Lotte	2	Yuginongsan	Consolidator (US)
Samsung Plaza	1	Yuginongsan	Consolidator (US)
Organic Specialty Stores:			
Orga	7	Pulmuone	Yuginongsan & Direct Imports
Einplaza	1	Yuginonsan	

In addition to the high-end department stores, there are several specialty stores selling mainly organic products and health food. There are also many local grocery store chains that sell small amounts of

imported organic items depending on their locations. Stores located in more affluent areas carry more organic and natural items.

Sector Trends

Currently, the types of organic products available are either domestically grown fresh produce or grain (mostly rice). The only domestically produced processed organic products being sold in the retail sector are green tea, kimchee and tofu. There are two soybean farms in China that have been approved by the Korean government to export organic product to Korea, but to date, no U.S. farms have applied for certification. The types of imported processed organic products available include breakfast cereal, juice, jam, popcorn, pickles, tea, coffee, salt, sugar, olive oil and vinegar.

According to sector contacts, the fastest growing organic products are baby food, infant formula, baby teething crackers and even baby shampoo.

In general, organic products are priced well above conventional counterparts as noted below. Nevertheless, many Korean consumers perceive a benefit and are willing to pay the higher prices, particularly for their children.

Table 3: Price Comparison

	Conventional Price (KRW)	Organic Price (KRW)	Price Difference	Percent Increase
Lettuce, Red Leaf	₩ 980	₩ 2,080	₩ 1,100	112%
Spinach,	₩ 980	₩ 1,780	₩ 800	82%
Cucumber, 2	₩ 1,100	₩ 2,380	₩ 1,280	116%
Carrots, 500g	₩ 900	₩ 1,950	₩ 1,050	117%
Tofu	₩ 1,850	₩ 2,300	₩ 450	24%
Strawberry Jam, 290g	₩ 1,580	₩ 14,400	₩ 12,820	811%
Baby Food, 190g	₩ 2,500	₩ 3,900	₩ 1,400	56%
Carrot Juice, 750ml	₩ 750	₩ 14,500	₩ 13,750	1833%
Ketchup, 500ml	₩ 1,200	₩ 11,500	₩ 10,300	86%

FOOD INGREDIENTS

Entry Strategy

The market for food ingredients is likely saturated for the limited number of products being produced in Korea. However, there has been some interest from importers to source organic soybeans for the production of organic tofu, and vegetable and fruit purees for the production of organic baby food. There are not many other organic products currently being produced in Korea.

The best market entry strategy for new-to-market exporters of organic ingredients is to begin by contacting the existing manufacturer of the conventional product.

Market Summary

Organic baby food first appeared in the Korean market in February 2002. Four major local dairy companies are currently manufacturing organic baby food. The size of the market is estimated at \$10 million per year for wet and dry organic baby food. The organic baby food price is more than 50 percent higher than price of conventional baby food. Ingredients are typically organic rice (30 percent), and dairy products, grains, fruits and vegetables (70 percent). Only the organic rice is supplied by domestic production, while the other organic ingredients are imported from either the European Union or the United States.

Nam Yang Dairy dominates the manufacturing sector for organic baby food with the balance of the market shared by three smaller competitors.

Table 3. Food Ingredient Company Profiles

Manufacturer Name	Market Share	Production of Dry Baby Food	Production of Wet Baby Food ¹
Nam Yang	50%	Manufacturers using 80% imported ingredients	Importing Direct: Gerber Baby Food (US)
Maeil	20%	Manufacturers using 80% imported ingredients	No production
Il dong Foodies	15%	Manufacturers using 80% imported ingredients	Importing Direct from New Zealand
Pasteur	10%	Manufacturers using 80% imported ingredients	No production

1. Note: No wet baby food is produced locally.

Sector Trends

Young mothers are willing to pay more for baby foods especially if they think the brand is trustworthy. The market for these products is very competitive in terms of both quality and price.

FOOD SERVICE PRODUCTS

A few restaurants are selling an organic menu item or two, but it is mostly limited to domestically grown vegetables. Restaurants in Korea are typically so specialized that a menu is not needed. As a result, there is usually no information provided to consumers that they are consuming organic food. These food service establishments believe that word of mouth is sufficient advertising.

SECTION IV. PRODUCTION AND PROMOTION

A. Production

Organic agriculture in Korea is generally defined as agricultural production without the use of synthetically produced chemicals. Although local production is still very small, it is expected to grow rapidly in the coming years. Interest in organic production has come about since the late 1980's, as public concern about food safety and environmental degradation increased as a result of several environmental disasters. In 1990, the *National Agricultural Cooperative Federation* (NACF) started training farmers in organic farming methods and, in 1992, MAF established a strict quality certification program for organic products. In 2001, the Korean National Assembly passed the *Environment-Friendly Agriculture Promotion Act* (EAPA).

As a result of this legislation, MAF established both a direct payment program and a regulatory system to encourage farmers to participate and to promote organic agriculture. Concurrently, the National Agricultural Products Quality Management Service (NAQS) was designated as the government certification body responsible for regulating environment-friendly agricultural products.

In 2002, the number of certified organic farms was 1,116 with a total acreage of 1,507 hectares. Total production was 41,971 tons, about 0.2 percent of the total agricultural production in Korea. It is estimated that the annual rate of growth for domestic organic production has been more than 30 percent since 1998. In Korea, mainly middle aged and educated farmers engage in organic farming. According

to a recent study, about 50 percent of organic farmers are less than 40 years of age and 60 percent of them have had more than 12 years of formal education.

Apart from organic, there are three other categories of environmentally-friendly production in Korea. From Table 3, you can see that if only half of the farms transitioned into organic in 2004 that would show a 30 percent growth in domestic organic products.

Table 4. Environmentally-Friendly Agricultural Production (EFAP): 2003

	Household	Acreage	Production (metric tons)
Organic	1,116	1,507	10,534
Transition to Organic	747	679	2,704
No Agri-Chemicals	6,202	5,805	41,667
Low Agri-Chemicals	10,056	9,879	69,913
TOTAL	18,121	17,870	124,818

Source: NAQS

The government expects production of organic produce to rise to a half-percent of all agricultural production by 2005 and to two percent by 2010. In 2001, the Korean government set up a five-year plan to increase EFAP by five percent annually and decrease the use of agricultural chemicals by 30 percent by 2005. Unless a farm is participating in the EFAP program, there are no restrictions on the amount of agricultural chemicals used. Farmers are motivated by higher yields to use increasing amounts of chemicals.

B. Promotion

Currently, very little to no domestically produced organic produce or grain is being exported. The Korean government had hoped to promote organic products as an export-oriented item, but that has not yet happened.

SECTION V. PROMOTIONAL ACTIVITIES

- Organic Seminar (February 4, 2004): The U.S. Agricultural Trade Office (ATO) in Seoul, Korea; along with the Western U.S. Agricultural Trade Association (WUSATA) will host an information seminar aimed at educating Korean importers, distributors and retailers on how to market organic products.
- Food and Hotel Korea 2004 (March 3-5, 2004): Booths are available for companies interested in displaying their products. Currently, Food and Hotel Korea is the only food show in Korea that has been endorsed by the Foreign Agricultural Service, U.S. Department of Agriculture.
- U.S. Organic Pavilion at FoodEx Tokyo (March 9-11, 2004): The U.S. Organic Trade Association will organize a group of U.S. exporters to exhibit their products at FoodEx in Tokyo, Japan.
- "All Things Organic" Buying Mission (April 28-May 6, 2004): ATO Seoul and WUSATA will be hosting eight major buyers of organic processed foods to the United States. The group will visit the "All Things Organic" Show in Chicago, Illinois, and travel to several other locations in the region.

SECTION VI. POST CONTACT AND FURTHER INFORMATION

For more information or assistance, please contact:

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Additional information on organic products and a monthly organic newsletter can be found at the Foreign Agricultural Services' Horticultural and Tropical Products Division homepage

(<http://www.fas.usda.gov/http/organics.html>). General information about the Foreign Agricultural Service can also be found at <http://www.fas.usda.gov>.

References:

Kim, Chang-Gil, Green Food and Organic Agriculture in Korea, Korea Rural Economic Institute, 2001